



FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

June 30, 2008

BUCHANAN COMMUNITY SCHOOLS
Buchanan, Michigan
June 30, 2008

BOARD OF EDUCATION

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Independent Auditor's Report

Board of Education
Buchanan Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Buchanan Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and page 31 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Buchanan Community Schools' basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Both the other supplemental information and the schedule of expenditure of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Schaffer & Layher".

Schaffer & Layher
August 29, 2008

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

To the Board of Education of
Buchanan Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan Community Schools as of and for the year ended June 30, 2008, which collectively comprise Buchanan Community School's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Buchanan Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Buchanan Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Buchanan Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described at 2008-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described at 2008-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Buchanan Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Buchanan Community Schools in a separate letter dated August 29, 2008.

Buchanan Community Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Buchanan Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities, is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads 'Schaffer & Layher' in a cursive, flowing script.

Schaffer & Layher
August 29, 2008

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA



Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133

To the Board of Education of
Buchanan Community Schools

Compliance

We have audited the compliance of Buchanan Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Buchanan Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Buchanan Community Schools' management. Our responsibility is to express an opinion on Buchanan Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Buchanan Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Buchanan Community Schools' compliance with those requirements.

In our opinion, Buchanan Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of Buchanan Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Buchanan Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads 'Schaffer & Layher' in a cursive, flowing script.

Schaffer & Layher
August 29, 2008

David Schaffer, CPA
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Buchanan Community Schools, (the "District") a K-12 School District located in Berrien County, Michigan, follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2008 of the management of Buchanan Community Schools.

Generally accepted accounting principles in the United States of America ("GAAP") and GASB 34 requires the reporting of two types of financial statements: Fund Financial Statements and District-Wide Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Debt Service Funds, and the School Service Funds which are comprised of: Food Service and Athletics Funds.

In the fund financial statements, capital assets purchased with cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-Wide Financial Statements

The District-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless of whether they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide Financial Statements.

The School District as Trustee — Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets

The District had \$7,845,462 and \$6,729,165 in net assets as of June 30, 2008 and 2007, respectively. The net assets of the District are summarized in the table below:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets:		
Cash and cash equivalents	\$ 2,862,838	\$ 2,761,661
Cash - restricted	-	129,017
Due from other governmental units	2,139,090	1,912,112
Net capital assets	12,332,293	12,488,202
Other assets	39,280	68,154
	<u>\$ 17,373,501</u>	<u>\$ 17,359,146</u>
Liabilities:		
Accounts payable and other accrued liabilities	\$ 1,183,672	\$ 1,241,145
Notes and bonds payable	8,344,367	9,388,836
	<u>\$ 9,528,039</u>	<u>\$ 10,629,981</u>
Net Assets:		
Investment in capital assets - net of related debt	\$ 3,987,926	\$ 3,099,366
Restricted for:		
Debt service	298,895	633,134
Capital projects	303,742	369,625
Other	160,050	216,839
Unrestricted	3,094,849	2,410,201
Total Net Assets	<u>\$ 7,845,462</u>	<u>\$ 6,729,165</u>
Total Liabilities and Net Assets	<u>\$ 17,373,501</u>	<u>\$ 17,359,146</u>

Analysis of Financial Position

During fiscal year ended June 30, 2008, the District's net assets increased by \$1,116,297. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's revenues exceeded expenditures from General Fund operations by \$627,270 for the fiscal year ended June 30, 2008. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The District made principal payments on bonded, long term debt obligations which reduced the amount of the District's long term liabilities. Principal payments made during the year ended June 30, 2008 totaled \$5,594,469 (\$5,410,000 reduced the 1997 Bonds; \$175,000 reduced the 2003 Bonds; and \$9,469 reduced EPA notes).

Analysis of Financial Position, Concluded

C. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$155,909 during the year. The net activity for the year is summarized in the following table:

	Balance			Balance
	June 30, 2007	Additions	Deletions	June 30, 2008
Capital Assets	\$ 19,835,626	\$ 303,312	\$ -	\$ 20,138,938
Less: accumulated depreciation	(7,347,424)	(459,221)	-	(7,806,645)
Net investment capital outlay	<u>\$ 12,488,202</u>	<u>\$ (155,909)</u>	<u>\$ -</u>	<u>\$ 12,332,293</u>

This year, the School District's additions of \$303,312 in capital assets included a bus, vans, and new roofs for certain buildings. The capital projects planned for the 2008-2009 fiscal year are expected to be comparable to the 2007-2008 fiscal year. The School District does not own any infrastructure assets.

D. Long-Term Debt Analysis

In 1997, Buchanan Community Schools' voters approved a \$7,415,000 million, general obligation, refunding bond issue. The proceeds from the original 1993 bond issue were used for renovating the high school and partially remodeling existing school facilities, and equipping facilities. These bonds were fully paid in 2008 with new refunding proceeds.

In 2003, the District voters approved a \$3,875,000 million, general obligation bond issue for a new auxiliary high school gymnasium with equipment and remodeling of the existing school facilities.

In 2008, the District approved a new general bond obligation of \$4,550,000 which was used to pay down the 1997 refunded bonds.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30 are summarized in the table below:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 1,541,499	\$ 1,489,105
Property taxes levied for debt service	1,072,757	1,022,230
Property taxes levied for capital projects	203,741	192,352
State of Michigan unrestricted foundation aid	10,424,445	10,290,350
Other general revenues	200,495	243,148
Total general revenues	<u>\$ 13,442,937</u>	<u>\$ 13,237,185</u>
Operating Grants:		
Federal	\$ 633,439	\$ 635,426
State of Michigan	900,350	920,987
Other operating grants	449,050	373,840
Total operating grants	<u>\$ 1,982,839</u>	<u>\$ 1,930,253</u>
Charges for Services:		
Food service	\$ 330,436	\$ 332,793
Other charges for services	133,891	212,028
Total charges for services	<u>\$ 464,327</u>	<u>\$ 544,821</u>
Total revenues	<u>\$ 15,890,103</u>	<u>\$ 15,712,259</u>
Expenses:		
Instruction	\$ 7,795,694	\$ 7,959,253
Pupil services	871,173	965,979
Support services	4,192,637	4,467,367
Community services	93,363	117,457
Food service	708,780	671,918
Athletics	268,047	211,151
Interest on long-term debt	384,891	417,227
Depreciation	459,221	449,523
Total expenses	<u>\$ 14,773,806</u>	<u>\$ 15,259,875</u>
Change in Net Assets	<u>\$ 1,116,297</u>	<u>\$ 452,384</u>
Beginning Net Assets	<u>6,729,165</u>	<u>6,276,781</u>
Ending Net Assets	<u><u>\$ 7,845,462</u></u>	<u><u>\$ 6,729,165</u></u>

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 80 percent of current year fall count and 20 percent of prior year winter count, and
3. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Buchanan Community Schools' net foundation allowance for the fiscal year 2008 was \$7,204 per student. This amount increased \$119 from the District's 2006-2007 net foundation allowance of \$7,085 per student.

Student Enrollment

The District's student enrollment for the 2007-2008 fiscal year was 1,708 students. The District's enrollment decreased slightly from the prior year count by five students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2007-2008	1,708	(5)
2006-2007	1,713	(3)
2005-2006	1,716	(19)
2004-2005	1,735	71
2003-2004	1,664	(27)

Subsequent to year end June 30, 2008, preliminary student enrollments for 2008-2009 indicate no increase in enrollments from 2007-2008.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2007-2008 fiscal year was \$1,541,499. The non-homestead tax levy has increased by 3.5 percent over the prior year.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), concluded

The following summarizes the District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2007-2008	1,541,499	3.52%
2006-2007	1,489,105	7.64%
2005-2006	1,383,464	2.90%
2004-2005	1,344,461	8.94%
2003-2004	1,234,094	(3.06)%

3.99% Average Increase

Debt Fund Property

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2007-2008, the District's debt millage levy was (2.94 mills for 1997 debt and 1.26 mills for 2003 debt), which generated a levy of \$1,072,757.

Food Sales to Students & Adults (School Lunch Program)

Overall, the District's lunch and milk sales showed a slight decrease over last year. Both school lunch and milk prices remained unchanged from last year.

The total revenues from Food Service operations were below total expenditures for the year by \$10,011.

General Fund Expenditures Budget vs. Actual Five Year History

	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Audit</u>	<u>Variance: Audit vs. Prelim. Budget</u>	<u>Variance: Audit vs. Final Budget</u>
2007-2008	13,451,432	13,390,198	13,205,725	1.8%	(1.4)%
2006-2007	13,291,136	13,731,278	13,621,228	2.5%	(0.8)%
2005-2006	13,235,107	13,697,401	13,949,933	5.3%	1.7%
2004-2005	12,472,190	12,670,252	12,955,462	3.9%	2.3%
2003-2004	12,426,081	12,246,913	12,511,110	.01%	2.1%
Five Year Average Actual (Over)/Under Budget				2.7%	0.8%

General Fund Revenues Budget vs. Actual Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2007-2008	13,283,805	13,593,295	13,832,995	4.1%	1.8%
2006-2007	13,377,743	13,687,176	13,751,972	2.8%	0.5%
2005-2006	12,991,434	13,275,232	13,405,511	3.2%	.01%
2004-2005	12,354,866	12,900,980	13,206,070	6.9%	2.4%
2003-2004	12,229,003	12,274,370	12,661,466	3.5%	3.1%
Five Year Average Actual Over/(Under) Budget				4.1%	1.9%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the School District amends its budget during the school year. For fiscal year ending June 30, 2008, the budget was amended in November of 2007 and in June of 2008. The June 2008 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	\$	13,283,805	100.00%
Total Revenues Final Amended Budget		13,593,295	102.32%
	\$	309,490	2.32%

The District's original budget of general fund revenues differed from the final budget by \$309,490, a variance of 2.32% from final budget.

The final revenue budget reflects the following changes from the original budget:

- The District received more operating grant money due to receiving a special education grant not originally budgeted for.

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$	13,451,432	100.00%
Total Expenditures Final Amended Budget		13,390,198	99.50%
	\$	61,234	0.50%

Original vs. Final Budget, concluded

The final expenditures budget reflects the following changes from the original budget:

- Certain purchases that were originally budgeted for were not necessary at or near year-end and decreased pension matching costs during the fiscal year.
- The final actual expenditures were 1.37% below final amended budget expenditures for the fiscal year.

Factors bearing on the District's Future

Our elected Board and Administration consider many factors when setting the District's future budget and assessing the financial health. One of the most important factors is our student count and the anticipated foundation allowance to be received for each student. We project future student counts to increase, but have kept the Foundation allowance the same as a conservative measure. The state revenues represent approximately 81% of the total District revenue.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at Buchanan Community Schools.

BUCHANAN COMMUNITY SCHOOLS**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 2,862,838
Receivables	29,083
Due from other governmental units	2,139,090
Inventories	9,535
Prepaid expenditures	662
Total current assets	<u>\$ 5,041,208</u>
Noncurrent assets:	
Capital assets	\$ 20,138,938
Less: accumulated depreciation	(7,806,645)
Total noncurrent assets	<u>\$ 12,332,293</u>
Total Assets	<u><u>\$ 17,373,501</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 155,281
Accrued payroll and other liabilities	1,028,391
Notes and bonds payable, due within one year	706,024
Total current liabilities	<u>\$ 1,889,696</u>
Noncurrent liabilities:	
Notes and bonds payable, due in more than one year	7,638,343
Total Liabilities	<u>\$ 9,528,039</u>
Commitments and Contingencies	
Net Assets	
Investment in capital assets - net of related debt	\$ 3,987,926
Restricted for:	
Debt service	298,895
Capital projects	303,742
Other	160,050
Unrestricted	3,094,849
Total Net Assets	<u>\$ 7,845,462</u>
Total Liabilities and Net Assets	<u><u>\$ 17,373,501</u></u>

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLSSTATEMENT OF ACTIVITIES
JUNE 30, 2008

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 7,795,694	\$ 12,179	\$ 1,263,866	\$ (6,519,649)
Pupil services	871,173	-	334,193	(536,980)
Support services	4,192,637	3,410	20,766	(4,168,461)
Community services	93,363	54,008	-	(39,355)
Food services	708,780	330,436	364,014	(14,330)
Athletics	268,047	64,294	-	(203,753)
Interest on long-term debt	384,891	-	-	(384,891)
Depreciation (unallocated)	459,221	-	-	(459,221)
	<u>\$ 14,773,806</u>	<u>\$ 464,327</u>	<u>\$ 1,982,839</u>	<u>\$ (12,326,640)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 1,541,499
Property taxes, levied for debt purposes				1,072,757
Property taxes, levied for capital project purposes				203,741
State aid not restricted to specific purposes				10,424,445
Interest and investment earnings				142,306
Other				<u>58,189</u>
Total general revenues				<u>\$ 13,442,937</u>
Change in Net Assets				\$ 1,116,297
Net Assets - beginning of year				<u>6,729,165</u>
Net Assets - end of year				<u><u>\$ 7,845,462</u></u>

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	Major Funds			Non-Major Governmental Funds	Total
	General	1997 Refunding Bonds	2008 Refunding Bonds		
Assets					
Cash and investments	\$ 2,172,607	\$ 787	\$ -	\$ 689,444	\$ 2,862,838
Receivables	29,083	-	-	-	29,083
Due from other governmental units	2,139,090	-	-	-	2,139,090
Due from other governmental funds	64,587	105,831	-	142,128	312,546
Inventories	-	-	-	9,535	9,535
Prepaid expenditures	662	-	-	-	662
Total Assets	\$ 4,406,029	\$ 106,618	\$ -	\$ 841,107	\$ 5,353,754
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 155,281	\$ -	\$ -	\$ -	\$ 155,281
Accrued salaries and withholdings	973,423	-	-	7,116	980,539
Due to other governmental funds	133,962	106,618	7,379	64,587	312,546
Total Liabilities	\$ 1,262,666	\$ 106,618	\$ 7,379	\$ 71,703	\$ 1,448,366
Fund Balance					
Reserved for inventories	\$ -	\$ -	\$ -	\$ 9,535	\$ 9,535
Reserved for prepaids	662	-	-	-	662
Reserved for debt service	-	-	(7,379)	306,274	298,895
Reserved for capital projects	-	-	-	303,742	303,742
Unreserved and undesignated	3,142,701	-	-	-	3,142,701
Unreserved and undesignated - food service	-	-	-	148,282	148,282
Unreserved and undesignated - athletics	-	-	-	1,571	1,571
Total Fund Balance	\$ 3,143,363	\$ -	\$ (7,379)	\$ 769,404	\$ 3,905,388
Total Liabilities and Fund Balance	\$ 4,406,029	\$ 106,618	\$ -	\$ 841,107	\$ 5,353,754

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS**RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2008**

Total Fund Balances - Governmental Funds \$ 3,905,388

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	20,138,938
Accumulated depreciation	(7,806,645)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	(8,344,367)
---------------	-------------

Accrued interest payable is not included as a liability in
governmental activities

(47,852)

Total net assets - Governmental activities

\$ 7,845,462

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	Major Funds				
	General	1997 Refunding Bonds	2008 Refunding Bonds	Other Nonmajor Governmental Funds	Total
Revenues					
Property taxes	\$ 1,541,499	\$ 747,258	\$ -	\$ 529,240	\$ 2,817,997
Local sources	121,622	-	-	394,730	516,352
State sources	11,324,795	-	-	29,150	11,353,945
Federal sources	298,575	-	-	334,864	633,439
Interdistrict sources	426,064	-	-	-	426,064
Earnings on investments	120,440	2,402	8,447	11,017	142,306
Total Revenues	\$ 13,832,995	\$ 749,660	\$ 8,447	\$ 1,299,001	\$ 15,890,103
Expenditures					
Current:					
Instruction	\$ 7,795,694	\$ -	\$ -	\$ -	\$ 7,795,694
Pupil services	871,173	-	-	-	871,173
Supporting services	4,100,830	-	-	1,045,321	5,146,151
Community services	93,363	-	-	-	93,363
Debt service	9,469	-	-	-	9,469
Capital outlay	130,500	-	-	172,812	303,312
Intergovernmental payments	-	-	-	-	-
Total Expenditures	\$ 13,001,029	\$ -	\$ -	\$ 1,218,133	\$ 14,219,162
Excess of Revenues over Expenditures	\$ 831,966	\$ 749,660	\$ 8,447	\$ 80,868	\$ 1,670,941
Other Financing Sources (Uses)					
Operating transfers in	\$ -	\$ 5,129,940	\$ 587,427	\$ 236,950	\$ 5,954,317
Refunding bonds issued	-	-	4,550,000	-	4,550,000
Bond issuance costs, net	-	-	(23,313)	-	(23,313)
Payment to bond escrow agent					
Principal	-	(5,410,000)	-	(175,000)	(5,585,000)
Interest and fees	-	(269,418)	-	(125,130)	(394,548)
Operating transfers out	(204,696)	(587,427)	(5,129,940)	(32,254)	(5,954,317)
Total Other Financing Sources (Uses)	\$ (204,696)	\$ (1,136,905)	\$ (15,826)	\$ (95,434)	\$ (1,452,861)
Net Change in Fund Balances	\$ 627,270	\$ (387,245)	\$ (7,379)	\$ (14,566)	\$ 218,080
Fund Balances - Beginning of year	2,516,093	387,245	-	783,970	3,687,308
Fund Balances - End of year	\$ 3,143,363	\$ -	\$ (7,379)	\$ 769,404	\$ 3,905,388

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ 218,080

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(459,221)
Capital outlay	303,312
Total	<u>\$ (155,909)</u>

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 9,657

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 5,585,000

Proceeds from refunding of bond principal (4,550,000)

Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 9,469

Change in Net Assets of Governmental Activities \$ 1,116,297

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	<u>Agency Fund- Student Activities</u>
Assets:	
Cash and cash equivalents	\$ 183,172
Certificate of deposit	16,603
	<u>\$ 199,775</u>
Liabilities:	
Due to student groups	<u>\$ 199,775</u>

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Buchanan Community Schools (the “School District”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts’ reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net assets and the statement of changes in activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

1997 and 2008 Refunding Bond Funds account for the activity related to debt service on these issues.

Additionally, the District reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Service Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the District-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fund Based Statements (concluded)**

Fiduciary Funds (concluded) — The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables — in general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property Taxes – Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For Buchanan Community Schools’ taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

State Aid - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items (concluded) — certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

Capital Assets — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Compensated Absences — the liability for compensated absences, if any, reported in the District-wide statements consists of unpaid, accumulated annual leave and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations — in the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity — in the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data — Comparative data is not included in the District's financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Accounting— The School District follows the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"), and accordingly, the School District's financial statements present the following:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the School District's activities have been provided.

Estimates — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and major special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. State law permits districts to amend its budgets during the year. There were two amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at year-end.

Fund Deficits – The School District has accumulated fund balance deficit in the "Debt Retirement 2008 Refunding Bond" fund. The deficit will be eliminated with future tax revenues and fund transfers, if necessary.

Excess of Expenditures Over Appropriations in Major Budgeted Funds - The school district had expenditures that exceeded appropriations in the following major budgeted functions:

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, (CONCLUDED)***General Fund***

<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instruction-Elementary	\$ 2,701,201	\$ 2,710,360	\$ (9,159)
Instruction-Preschool	131,686	206,578	(74,892)
Instruction-Summer School	8,568	17,383	(8,815)
Instruction-Technical Education	255,388	300,713	(45,325)
Supporting Services-Library	302,384	305,944	(3,560)
Supporting Services-Direction of instructional staff	58,486	59,679	(1,193)
Supporting Services-Principal	796,251	802,005	(5,754)
Supporting Services-Business	688,086	754,414	(66,328)
Supporting Services-Pupil Transportation	685,509	732,401	(46,892)
Supporting Services-Other pupil activity	-	2,100	(2,100)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess had no impact on the financial results of the District.

NOTE 3. OPERATING LEASES

The School District leases office equipment under various operating leases. Rent expense was \$2,987 for the fiscal year ended June 30, 2008.

NOTE 4. CAPITAL PROJECT BOND EXPENDITURES

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with applicable provisions of section 1351a of the revised school code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2002 QZAB Bonds Debt Retirement Fund. The project for which the 2002 QZAB Bonds Debt Retirement Fund bonds were issued was considered complete on June 30, 2007, and the cumulative expenditures recognized for the construction period were \$500,000.

NOTE 5. SINKING FUNDS

The Building & Site Bond Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE 6. DEPOSITS AND INVESTMENTS

At June 30, 2008, the District's deposits and investments include the following:

	Balance Sheet Classification		
	Cash and Cash		
	<u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 1,350	\$ -	\$ 1,350
Bank deposits	341,110	-	341,110
Investments	-	2,520,378	2,520,378
	<u>\$ 342,460</u>	<u>\$ 2,520,378</u>	<u>\$ 2,862,838</u>

Bank Deposits:

All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$372,791 of the District's bank balance of \$616,676 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

Michigan law permits investments in: 1) Bonds and other obligations of the United States Government, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United State Bank, and 6) Certain mutual funds. The District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Current</u>	<u>Investment Maturities</u>		
			<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10</u>
Investment Pools	<u>\$ 2,520,378</u>	<u>\$ 2,520,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

NOTE 6. DEPOSITS AND INVESTMENTS, (CONCLUDED)

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the District's investment in the MILAF investment pool was rated AAAm by Standards & Poor's.

Concentration of Credit Risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the District's investments are in the MILAF investment pool and represent 100% of the District's total investments.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the investment in the investment pool of \$2,520,378, the District has a custodial credit risk exposure of \$2,520,378 because the related securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these particular securities. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign Currency Risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 7. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 2,139,090	\$ -	\$ 2,139,090
Trade	29,083	-	29,083
	<u>\$ 2,168,173</u>	<u>\$ -</u>	<u>\$ 2,168,173</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	\$ 155,281	\$ -	\$ 155,281
	<u>\$ 155,281</u>	<u>\$ -</u>	<u>\$ 155,281</u>

NOTE 8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The general fund collects monies that relate to the capital projects and debt service funds and repays those monies as expenditures are incurred, which could be in excess of one year. The general fund also transfers monies to the athletic fund to subsidize athletic activities.

The composition of interfund balances is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General Fund	\$ 305,167

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
Other Governmental Funds	General Fund	\$ 204,696
Other Governmental Funds	Other Governmental Funds	\$ 32,254
Other Governmental Funds	Other Governmental Funds	\$ 5,717,367

NOTE 9. CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 342,200	\$ -	\$ -	\$ 342,200
Capital assets being depreciated:				
Building and building improvements	\$ 17,197,776	\$ 172,812	\$ -	\$ 17,370,588
Land improvements	731,812	-	-	731,812
Buses and other vehicles	879,478	130,500	-	1,009,978
Furniture and equipment	684,360	-	-	684,360
Subtotal	\$ 19,493,426	\$ 303,312	\$ -	\$ 19,796,738
Accumulated depreciation:				
Building and building improvements	\$ 5,850,232	\$ 294,125	\$ -	\$ 6,144,357
Land improvements	573,176	24,689	-	597,865
Buses and other vehicles	566,202	96,444	-	662,646
Furniture and equipment	357,814	43,963	-	401,777
Subtotal	\$ 7,347,424	\$ 459,221	\$ -	\$ 7,806,645
Net capital assets being depreciated	\$ 12,146,002			\$ 11,990,093
Net capital assets	\$ 12,488,202			\$ 12,332,293

Depreciation expense of \$459,221 was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 10. LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Long-term obligation activity can be summarized as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
<i>Governmental Activities:</i>					
Bonds	\$ 9,345,113	\$ 4,550,000	\$ (5,585,000)	\$ 8,310,113	\$ 696,555
Notes Payable	43,723	-	(9,469)	34,254	9,469
Total bonds and notes payable	<u>\$ 9,388,836</u>	<u>\$ 4,550,000</u>	<u>\$ (5,594,469)</u>	<u>\$ 8,344,367</u>	<u>\$ 706,024</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
Years	Principal	Interest	Total
June 30, 2009	\$ 706,024	\$ 299,072	\$ 1,005,096
June 30, 2010	616,575	261,576	878,151
June 30, 2011	637,152	242,162	879,314
June 30, 2012	675,698	229,474	905,172
June 30, 2013	663,918	200,300	864,218
2014 to 2018	3,695,000	506,775	4,201,775
2019 to 2023	<u>1,350,000</u>	<u>97,357</u>	<u>1,447,357</u>
	<u>\$ 8,344,367</u>	<u>\$ 1,836,716</u>	<u>\$ 10,181,083</u>

Interest expense of \$384,591 was not charged to activities as the District considers its borrowings to impact multiple activities and allocation is not practical.

NOTE 10. LONG-TERM DEBT (CONCLUDED)

Governmental Activities:

General obligation bonds consist of:

\$4,550,000-2008 Refunding Bonds (general obligation-unlimited tax); payable in annual installments of \$395,000 to \$485,000 beginning 5/1/09 through 5/1/18; interest at 3.25% to 4.00%. \$ 4,550,000

\$3,875,000-2003 School Building and Site Bonds(general obligation-unlimited tax) payable in annual installments of \$175,000 to \$450,000 beginning 5/1/05 through 5/1/23; interest at 2.5% to 4.35%. 3,175,000

\$500,000-2002 School Improvement Bonds (general obligation-limited tax) Qualified Zone Academy Bonds; payable in one installment on 9/16/16; 0% interest. 500,000

\$207,667-1998 School Improvement Bonds(durant non-plaintiff); payable in annual installments of \$14,580 to \$68,816 beginning 5/15/01 through 5/15/13; interest at 3.5% to 5.25%. 85,113

Total bonds payable \$ 8,310,113

Non-interest bearing notes payable to the United States Environmental Protection Agency:

Note #85845301, dated 4/16/93; payable semi-annually of \$4,734; due May 2013. 34,254

Total notes payable \$ 34,254

Total long-term debt \$ 8,344,367

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$14,583 to \$43,746 associated with this Bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

NOTE 11. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11. RISK MANAGEMENT, (CONCLUDED)

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 12. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were \$1,247,399 \$1,435,202 and \$1,329,400 respectively.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage's. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**REQUIRED SUPPLEMENTAL
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE BUDGETARY COMPARISON SCHEDULE — GENERAL FUND JUNE 30, 2008

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	\$ 1,506,061	\$ 1,526,299	\$ 1,541,499
Local sources	107,300	110,800	121,622
State sources	10,878,679	11,153,219	11,324,795
Federal sources	293,971	295,342	298,575
Interdistrict sources	397,794	387,635	426,064
Earnings on investments	100,000	120,000	120,440
Total Revenues	\$ 13,283,805	\$ 13,593,295	\$ 13,832,995
Expenditures - Current			
Instruction:			
Elementary	\$ 2,760,603	\$ 2,701,201	\$ 2,710,360
Middle School	1,368,390	1,379,005	1,362,416
High School	1,916,799	1,947,903	1,913,293
Preschool	131,686	131,686	206,578
Summer School	17,459	8,568	17,383
Special Education	1,258,511	1,264,356	1,210,458
Compensatory Education	133,310	133,310	74,493
Technical Education	255,388	255,388	300,713
Alternative Education	45,387	42,537	-
Pupil Services	828,190	886,605	871,173
Supporting services:			
Improvement of instruction	60,975	89,950	38,800
Library	313,271	302,384	305,944
Direction of instructional staff	58,486	58,486	59,679
Board of education	36,350	46,350	40,193
Executive	217,665	217,665	200,239
Principal	800,708	796,251	802,005
Business	775,016	688,086	754,414
Operations	1,151,165	1,182,194	1,152,210
Information management services	96,000	96,000	12,845
Pupil transportation	679,309	685,509	732,401
Other pupil activity	-	-	2,100
Community services	136,795	114,795	93,363
Debt service	9,469	9,469	9,469
Capital outlay	180,000	132,000	130,500
Intergovernmental payments	-	-	-
Total Expenditures	\$ 13,230,932	\$ 13,169,698	\$ 13,001,029
Excess of Revenues Over Expenditures	\$ 52,873	\$ 423,597	\$ 831,966
Other Financing Sources (Uses)			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(220,500)	(220,500)	(204,696)
Total other financing sources (uses)	\$ (220,500)	\$ (220,500)	\$ (204,696)
Net Change in Fund Balances	\$ (167,627)	\$ 203,097	\$ 627,270
Fund Balances - Beginning of year	2,516,093	2,516,093	2,516,093
Fund Balances - End of year	\$ 2,348,466	\$ 2,719,190	\$ 3,143,363

**OTHER SUPPLEMENTAL
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2008

	Athletics Fund	Food Service Fund	Building & Site Capital Projects Fund	2003 Building & Site Bonds Debt Retirement Fund	2002 QZAB Bonds Debt Retirement Fund	Total Nonmajor Governmental Funds
Assets						
Cash and investments	\$ 1,564	\$ 147,920	\$ 368,329	\$ 8,285	\$ 163,346	\$ 689,444
Receivables	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-
Due from other governmental funds	2,679	4,806	-	134,643	-	142,128
Inventories	-	9,535	-	-	-	9,535
Prepaid expenditures	-	-	-	-	-	-
Total Assets	<u>\$ 4,243</u>	<u>\$ 162,261</u>	<u>\$ 368,329</u>	<u>\$ 142,928</u>	<u>\$ 163,346</u>	<u>\$ 841,107</u>
Liabilities and Fund Balances						
Liabilities						
Due to other governmental funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries and withholdings	2,672	4,444	-	-	-	7,116
Due to other governmental funds	-	-	64,587	-	-	64,587
Total Liabilities	<u>\$ 2,672</u>	<u>\$ 4,444</u>	<u>\$ 64,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,703</u>
Fund Balance						
Reserved for inventories	\$ -	\$ 9,535	\$ -	\$ -	\$ -	\$ 9,535
Reserved for debt service	-	-	-	142,928	163,346	306,274
Reserved for capital projects	-	-	303,742	-	-	303,742
Unreserved and undesignated - food	-	148,282	-	-	-	148,282
Unreserved and undesignated - athletics	1,571	-	-	-	-	1,571
Total Fund Balance	<u>\$ 1,571</u>	<u>\$ 157,817</u>	<u>\$ 303,742</u>	<u>\$ 142,928</u>	<u>\$ 163,346</u>	<u>\$ 769,404</u>
Total Liabilities and Fund Balance	<u>\$ 4,243</u>	<u>\$ 162,261</u>	<u>\$ 368,329</u>	<u>\$ 142,928</u>	<u>\$ 163,346</u>	<u>\$ 841,107</u>

BUCHANAN COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2008

	Athletics Fund	Food Service Fund	Building & Site Capital Projects Fund	2003 Building & Site Bonds Debt Retirement Fund	Durant Bonds	2002 QZAB Bonds Debt Retirement Fund	Total Nonmajor Governmental Funds
Revenues							
Property taxes	\$ -	\$ -	\$ 203,741	\$ 325,499	\$ -	\$ -	\$ 529,240
Local sources	64,294	330,436	-	-	-	-	394,730
State sources	-	29,150	-	-	-	-	29,150
Federal sources	-	334,864	-	-	-	-	334,864
Interdistrict sources	-	-	-	-	-	-	-
Earnings on investments	-	4,319	3,134	1,489	-	2,075	11,017
Total Revenues	<u>\$ 64,294</u>	<u>\$ 698,769</u>	<u>\$ 206,875</u>	<u>\$ 326,988</u>	<u>\$ -</u>	<u>\$ 2,075</u>	<u>\$ 1,299,001</u>
Expenditures							
Current:							
Instruction services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting services	268,047	708,780	67,692	802	-	-	1,045,321
Community services	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	172,812	-	-	-	172,812
Intergovernmental payments	-	-	-	-	-	-	-
Total Expenditures	<u>\$ 268,047</u>	<u>\$ 708,780</u>	<u>\$ 240,504</u>	<u>\$ 802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,218,133</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>\$ (203,753)</u>	<u>\$ (10,011)</u>	<u>\$ (33,629)</u>	<u>\$ 326,186</u>	<u>\$ -</u>	<u>\$ 2,075</u>	<u>\$ 80,868</u>
Other Financing Sources (Uses)							
Operating transfers in	\$ 204,696	\$ -	\$ -	\$ -	\$ -	\$ 32,254	\$ 236,950
Payment to bond escrow agent							
Principal	-	-	-	(175,000)	-	-	(175,000)
Interest and fees	-	-	-	(125,130)	-	-	(125,130)
Operating transfers out	-	-	(32,254)	-	-	-	(32,254)
Total Other Financing Sources (Uses)	<u>\$ 204,696</u>	<u>\$ -</u>	<u>\$ (32,254)</u>	<u>\$ (300,130)</u>	<u>\$ -</u>	<u>\$ 32,254</u>	<u>\$ (95,434)</u>
Net Change in Fund Balances	<u>\$ 943</u>	<u>\$ (10,011)</u>	<u>\$ (65,883)</u>	<u>\$ 26,056</u>	<u>\$ -</u>	<u>\$ 34,329</u>	<u>\$ (14,566)</u>
Fund Balances - Beginning of year	628	167,828	369,625	116,872	-	129,017	783,970
Fund Balances - End of year	<u>\$ 1,571</u>	<u>\$ 157,817</u>	<u>\$ 303,742</u>	<u>\$ 142,928</u>	<u>\$ -</u>	<u>\$ 163,346</u>	<u>\$ 769,404</u>

**SINGLE AUDIT
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	Federal C.F.D.A. #	Source Code and Project Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008	Adjustments
U.S. Department of Education									
<i>Passed through Michigan Department of Education:</i>									
Title I-Grants to Local Education Agencies	84.010	071530 0607	\$ 193,510	\$ 30,510	\$ 193,510	\$ -	\$ (30,510)	\$ -	\$ -
Title I-Grants to Local Education Agencies	84.010	081530 0708	211,458	-	-	211,458	(149,210)	62,248	-
Subtotal			<u>\$ 404,968</u>	<u>\$ 30,510</u>	<u>\$ 193,510</u>	<u>\$ 211,458</u>	<u>\$ (179,720)</u>	<u>\$ 62,248</u>	<u>\$ -</u>
Title V-LEA Allocation	84.298	080250 0708	\$ 350	\$ -	\$ -	\$ 350	\$ (350)	\$ -	\$ -
Technology Literacy Challenge Grants	84.318	080520 0708	\$ 76,488	\$ -	\$ -	\$ 55,613	\$ (36,176)	\$ 19,437	\$ -
Special Education_Grants to State	84.027	080440 0708	\$ 4,500	\$ -	\$ -	\$ 4,350	\$ -	\$ 4,350	\$ -
Title II A-Improving Teacher Quality	84.367	084290 0708	\$ 1,987	\$ -	\$ -	\$ 1,987	\$ (1,987)	\$ -	\$ -
Subtotal passed through Michigan Department of Education			<u>\$ 488,293</u>	<u>\$ 30,510</u>	<u>\$ 193,510</u>	<u>\$ 273,758</u>	<u>\$ (218,233)</u>	<u>\$ 86,035</u>	<u>\$ -</u>
<i>Passed through Berrien County Intermediate School District</i>									
Safe and Drug-Free Schools and Communities	84.186	2008	\$ 3,873	\$ -	\$ -	\$ 3,873	\$ (3,873)	\$ -	\$ -
Title V-LEA Allocation	84.298	2008	\$ 797	\$ -	\$ -	\$ 797	\$ (797)	\$ -	\$ -
Mathematics and Science Partnerships	84.366	2008	\$ 240	\$ -	\$ -	\$ 240	\$ (240)	\$ -	\$ -
Vocational Education-Perkins II	84.048	2008	\$ 18,631	\$ -	\$ -	\$ 18,631	\$ (18,631)	\$ -	\$ -
Special Education_Grants to State	84.027	2008	\$ 564	\$ -	\$ -	\$ 564	\$ (564)	\$ -	\$ -
Freedom to Learn	84.318	2008	\$ 350	\$ -	\$ -	\$ 350	\$ (350)	\$ -	\$ -
Subtotal passed through Berrien County Intermediate School District			<u>\$ 24,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,455</u>	<u>\$ (24,455)</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Passed through Van Buren Intermediate School District</i>									
Special Education_Grants to State	84.027	2008	\$ 362	\$ -	\$ -	\$ 362	\$ (362)	\$ -	\$ -
Total Department of Education			<u>\$ 513,110</u>	<u>\$ 30,510</u>	<u>\$ 193,510</u>	<u>\$ 298,575</u>	<u>\$ (243,050)</u>	<u>\$ 86,035</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

BUCHANAN COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Grantor/Program Title	Federal C.F.D.A. #	Source Code and Project Number	Approved Grant Award Amount	(Deferred) Revenue July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	(Deferred) Revenue June 30, 2008	Adjustments
U.S. Department of Agriculture									
<i>Passed through Michigan Department of Education:</i>									
Food Distribution:									
Bonus Commodities	10.550	n/a	\$ 1,586	\$ -	\$ -	\$ 1,586	\$ (1,586)	\$ -	\$ -
Entitlement Commodities	10.550	n/a	44,182	(1,929)	-	44,182	(44,182)	(1,929)	-
Subtotal			<u>\$ 45,768</u>	<u>\$ (1,929)</u>	<u>\$ -</u>	<u>\$ 45,768</u>	<u>\$ (45,768)</u>	<u>\$ (1,929)</u>	<u>\$ -</u>
National School Lunch Program:									
Special Milk	10.556*	1940	\$ 2,058	\$ -	\$ -	\$ 2,058	\$ (2,058)	\$ -	\$ -
Section 4	10.555*	1950	\$ 44,183	\$ -	\$ -	\$ 44,183	\$ (44,183)	\$ -	\$ -
Section 11	10.555*	1960	183,127	-	-	183,127	(183,127)	-	-
			<u>\$ 227,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,310</u>	<u>\$ (227,310)</u>	<u>\$ -</u>	<u>\$ -</u>
School Breakfast Program:									
Breakfast	10.553*	1970	\$ 59,728	\$ -	\$ -	\$ 59,728	\$ (59,728)	\$ -	\$ -
Total Department of Agriculture			<u>\$ 334,864</u>	<u>\$ (1,929)</u>	<u>\$ -</u>	<u>\$ 334,864</u>	<u>\$ (334,864)</u>	<u>\$ (1,929)</u>	<u>\$ -</u>
Total Federal Assistance			<u>\$ 847,974</u>	<u>\$ 28,581</u>	<u>\$ 193,510</u>	<u>\$ 633,439</u>	<u>\$ (577,914)</u>	<u>\$ 84,106</u>	<u>\$ -</u>

* These programs are included in the Child Nutrition Cluster according to the OMB Compliance Supplement.

See accompanying notes to Schedule of Expenditures of Federal Awards.

SECTION I – SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable conditions(s) identified that are not considered to be material weakness(es)? ☒ Yes ☐ none reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable conditions(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ none reported

Type of auditors report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with §510(a) of OMB Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster
10.553, 10.555,
10.556 Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

SECTION II – FINANCIAL STATEMENT FINDINGS**2008-1.**

Specific Requirement: Establishment and maintenance of internal controls over the financial reporting process.

Condition: Personnel responsible for financial reporting have time and monetary constraints that require assistance in preparing the financial statements and related footnotes. The staff of the District does understand all information included in the annual financial statements, but obtains assistance in the preparation.

Criteria: Internal controls should be in place to provide reasonable assurance to the District that management prepare, monitor, and report annual financial activity without auditor intervention.

Effect of Condition: The effect of this condition places a reliance on the independent auditor to be part of the District's internal controls over financial reporting.

Recommendation: The District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Planned Action: As a result of the state of educational funding, the District has not allocated resources to fund this process and duplication of expertise services is cost prohibitive. We intend to re-evaluate once funding becomes available for the additional education and monitoring, and continue to rely on the high-level of expertise and knowledge from our auditors

Questioned Cost: Unknown.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the current year.

BUCHANAN COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

NOTE 1. Significant Accounting Policies

Basis of Presentation:

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the Buchanan Community School's (the District) federal award programs and also presents those transactions that would be included in the financial statements of the District presented on the accrual basis of accounting, as contemplated by U.S. generally accepted accounting principles.

NOTE 2. EXPENDITURES AND FINANCIAL REPORTS

The expenditures in this schedule of federal financial awards are considered necessary and reasonable for the proper administration of the related programs and are in agreement with the amounts reported in the financial statements and the related financial reports submitted to the Michigan State Department of Education. The financial reports that have been submitted are timely, complete, accurate, and contain information that is supported by the records from which the basic financial statements have been prepared.

NOTE 3. R7120 (GRANTS SECTION AUDITORS REPORT)

The amounts reported on the R7120 (Grants Section Auditors Report) have been utilized to prepare the Schedule of Expenditures of Federal Awards and reconciles with the schedule as follows:

	<u>Amount</u>
Current year cash receipts reported on the Schedule of Expenditures of Federal Awards	\$ 577,914
Less:	
Items passed through B.C.I.S.D.	(24,455)
Items passed through V.B.I.S.D.	(362)
Food distribution commodities	(45,768)
Prior year receivable	(30,510)
Payments on report not received in current year	5,661
Current year receipts reported on the R7120	<u>\$ 482,480</u>

NOTE 4. FOOD DISTRIBUTION

The amounts reported on the Recipient Entitlement Balance Report (PAL report), agree with this schedule for USDA donated food commodities and are reported in the cash receipts column. Spoilage or pilferage, if any, is included in expenditures.

BUCHANAN COMMUNITY SCHOOLS**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008****NOTE 5. LOANS**

The District has received various loans from the EPA under the Asbestos Hazard Emergency Response Act. The values of those loans outstanding at June 30, 2008 are as follows:

<u>Note #</u>	<u>Amount</u>
85845301	<u>\$ 34,254</u>

NOTE 6. SCHEDULE OF RECONCILIATION OF REVENUES WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

The actual Federal source revenues amounted to \$683,868 per the audit of the financial statements. The related expenditures are composed of the following:

	<u>Amount</u>
Actual cash expenditures	\$ 587,671
Entitlement commodities used	44,182
Bonus commodities used	<u>1,586</u>
	<u>\$ 633,439</u>

NOTE 7. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUB-RECIPIENTS

None for the current year.



August 17, 2007

Board of Education of
Buchanan Community Schools
Buchanan, Michigan

In planning and performing our audit of the financial statements of **Buchanan Community Schools (the "District")** as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated then in writing to management and those charged with governance in our report dated August 17, 2007 in the schedule of findings and questioned costs.

The communication is intended solely for the information and use of management, the District's Board of Education, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in dark ink that reads 'Schaffer & Layher' in a cursive, flowing script.

Schaffer & Layher
St. Joseph, MI

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA



To the Board of Directors
Buchanan Community Schools

We have audited the financial statements of Buchanan Community Schools for the year June 30, 2008, and have issued our report thereon dated August 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financials statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Buchanan Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Buchanan Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Buchanan Community School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Buchanan Community School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide legal determination on Buchanan Community School's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 4, 2008.

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Buchanan Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on managements' knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives capital assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008,

Management Consultations with Other Independent Accountants

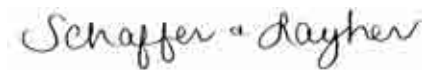
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standard require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Buchanan Community School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, Board of Directors and management of Buchanan Community School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher, PLLC
August 29, 2008